

ACCOUNTING FOR INDIVIDUAL BORROWER 502 LOAN ACCOUNTS HANDBOOK

**RURAL DEVELOPMENT SECTION 523
MUTUAL SELF-HELP HOUSING PROGRAM**

DISCLAIMER

A handbook for Grantees of the USDA Section 523 Self-Help Housing Program

Developed jointly by the Self-Help Housing Technical and Management Assistance (T&MA) Contractors:

Florida Non-Profit Housing, Inc. (FNPH)

Little Dixie Community Action Agency, Inc. (LDCAA)

National Council on Agricultural Life and Labor Research Fund, Inc. (NCALL)

Rural Community Assistance Corporation (RCAC)

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Refer to the Introduction chapter of this handbook to identify the appropriate T&MA Contractor to contact for your area. After receipt of consent and conditions letter you may copy and distribute the manual in accordance with such terms and conditions as set and approved by the T&MA Contractors.

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Introduction

The Self-Help Program

Self-help housing is just as it sounds, participants working together to build their own homes. This cooperative effort is a direct application of the church and barn raising traditions of pioneering rural Americans. Self-help participants, working in groups, supply the necessary labor to build their homes, having qualified for mortgage financing to purchase land, building materials, and some subcontracted work on the more technical items. A private nonprofit corporation, public body, a federally recognized Tribe, or rural town can obtain a grant from U.S. Department of Agriculture (USDA) Rural Development to hire skilled staff, rent office facilities, pay for mileage, and purchase tools. This staff then works with the participants by providing the assistance and training necessary to fulfill the goals of the self-help housing program. The program is described in more detail below.

With the assistance of the skilled staff, a group of generally four to 10 households is formed. Once the grant is completed, at least 40% of the total participants served should be in the very low income category (50% or less of the county median income). The balance of the participants must be in the low-income category (80% or less of the county median income). The participants select lots, house plans, (or in the case of purchase/repair programs, locate a suitable home) and apply for individual mortgage loans. While participants await loan approval, the group studies the responsibilities of homeownership, construction techniques, tool usage, safety, homeowner's insurance, taxes, home maintenance, and money management. This time is known as the pre-construction stage.

Once the loans are approved, the group begins to build under the guidance of a skilled construction supervisor. The participants must complete a minimum of 65% of the construction labor tasks until the group of homes is completed; usually the more technical work such as electrical, plumbing and HVAC is subcontracted out. The construction stage lasts from six to 12 months, depending on the size of the group and other factors. Participants work during their spare time (evenings, weekends, and days off) so as not to interfere with the regular household employment. Rural Development loans feature fixed interest rates ranging from 1% to the current market rate, depending on the household's adjusted annual income. The repayment period is 33 or 38 years and no down payment is required.

Rural Development

Rural Development is an agency of USDA. The Rural Development mission is to help rural Americans improve the quality of their lives. Rural Development helps rural communities meet their basic needs by:

- Building water and wastewater systems.
- Financing decent, safe, sanitary and affordable housing.
- Supporting electric power and rural businesses, including cooperatives.
- Supporting economic and community development with information, technical assistance and funding.

Rural Development has been providing the funds for the self-help housing program since the late 1960s. They provide Section 523 self-help grants to eligible entities to start and implement the program and they thoroughly review the self-help application before a grant is awarded. When a grant is awarded, Rural Development is agreeing that there is a need for self-help housing in the area; the approved applicant is suited to administer a self-help housing program; the proposed plan, budget and schedule are feasible; the house plans meet local, state and Rural Development building codes; adequate building sites are available; the necessary project elements are in place; and Rural Development is ready to provide the requested financial resources necessary to make the project work. Technical assistance grant funds provided to self-help grantees by Rural Development do not have to be repaid. It is an investment Rural Development is willing to make in order to see self-help housing work.

Rural Development will continue to monitor and provide oversight in the areas of construction and administration, through quarterly meetings, construction inspections, and participant accounts throughout the term of the grant.

In most cases Rural Development provides another important ingredient to the self-help program; construction/permanent financing in the form of a Single Family Housing Direct Home Loan (Section 502). They are independent of private or conventional lending institutions; the financing is directly between Rural Development and the borrower. While labor and construction are group efforts, each applicant must qualify and obtain a loan individually from Rural Development. Rural Development's function as a lender is significant because private credit institutions in rural areas are relatively few in number, smaller, and often impose more rigid terms which can be a barrier to homeownership.

Rural Development Offices

Rural Development usually operates from four levels: national, state, area and local. The National Rural Housing Service Administrator in the National Office and the State Directors are politically appointed – all others are federal civil service employees.

Rural Development National Office

The Rural Development National Office is responsible for developing policy and interacts with Congress for legislation, development and program funding. The National Office also obligates and monitors all Section 523 self-help grants. The program staff at the national level maintain reports and statistics on operating self-help organizations and projected needs for funding.

Rural Development State Office

The State Office has the approval authority over smaller Section 523 Self-Help grant applications up to \$300,000. Section 502 home loan funds are allocated on a state-by-state basis and the State Office allocates the 502 money based on a state Rural Development formula. There are additional staff members who are key to the operation of a self-help program located in many State Offices:

Rural Development State Director

Rural Housing Program Director

Rural Development State Architect

Rural Development Appraiser

Rural Development Loan Specialist

Rural Development Housing Specialist

Rural Development Area Office

The Rural Development Area Director is typically responsible for the Section 523 self-help grant. In some states however, the grant monitoring has been retained at the State Office level with the Single Family Housing Program Director or has been assigned to the Local Office. In any case, the Rural Development grant manager is responsible to ensure that the grant is operated effectively and in accordance with regulations. Rural Development will evaluate the Section 523 self-help agencies on a quarterly basis, process draw requests and review grant applications for new and on-going programs.

Rural Development Local Office

Within this office, the Area Specialist is typically responsible for making the Section 502 home loans to participating applicants of each self-help group. He or she will be responsible for monitoring the 502 loans and will also be the co-signer on the participant's Supervised Bank Accounts and will process the

draws. They are the personnel who will convert the loans once the local jurisdiction has completed the final inspection and issued a Certificate of Occupancy.

The Rural Development Section 502 Single Family Direct Home Loan

Many applicants that participate in the self-help housing program use Rural Development's Section 502 home loan program to finance their homes. Section 502 loans are only available for homes in eligible rural areas as defined by USDA (www.rd.usda.gov).

In order to qualify for a Section 502 loan, prospective self-help applicants must meet Rural Development income eligibility requirements as low-income or very low-income. They must be credit-worthy, have repayment ability for the loan requested, and be unable to secure credit from other sources. Low-income is defined as 80% or less of the area median income, based on family size. Very low-income is defined as 50% or less of the area median income, based on family size. These income standards, established by the U.S. Department of Housing and Urban Development and adopted by Rural Development, are subject to local variation and periodic change. Current information on income standards and eligibility requirements for Section 502 loans is available at Rural Development local offices or online at www.rd.usda.gov.

The repayment period for the Section 502 loan is either 33 or 38 years, and the interest rate is between 1% and the current market rate. The actual rate of interest the borrower pays depends on the borrower's income, as does the loan term. If a borrower is eligible to pay less interest than the market rate, the borrower then receives a subsidy called "payment assistance." The amount of payment assistance a borrower receives is determined by the loan amount, loan period, and the household income. The assistance makes up the difference between the full loan interest rate and the interest rate the participant pays. A portion of this subsidy must be repaid at time of sale or loan payoff based on equity, time, etc.

During home construction, Section 502 funds are advanced from the Rural Development finance office in St. Louis and disbursed by the local offices to the self-help grantee. Grantees prepare the drawdowns and checks for each participant's account as needed to purchase materials for different phases of construction. Note that the participant's loan payments are deferred during construction.

When construction is complete and all the necessary funds have been withdrawn from a participant's account, Rural Development's finance office sends payment books to the participant. The participant's first loan payment is due within 30 days of termination of deferred payments. Payments then go directly to Rural Development's National Financial and Accounting Operations (NFAOC) in St. Louis.

The 523 Mutual Self-Help Housing Technical Assistance Grant

In order to enable organizations to operate a mutual self-help housing program, Rural Development provides grant funds to operate and oversee the program. Each technical assistance (TA) grant is usually for a period of up to two years, and is available to public and private nonprofit organizations, federally-recognized Tribes and units of state or local government. The amount of grant funds an organization can receive is based primarily upon how many houses they build in a grant period. An organization can receive up to 15% of the average cost of a new home financed under the 502 program in their area, for every home they are planning to build or an average TA cost per equivalent unit that does not exceed the difference between the equivalent value of modest homes in the area and the average mortgage of the participating families minus \$1,000.

Activities that are allowable uses of Section 523 technical assistance grant funds include:

- Recruit eligible households to participate in the self-help program
- Hold training meetings with participants on the self-help process and homeownership topics such as mortgages, insurances, taxes, and maintenance
- Assist participants to obtain and develop building sites; obtaining or creating Rural Development-approved house plans and helping participants select theirs
- Help participants bid and select building supplies and subcontractors; train participants in construction techniques and provide construction supervision
- Supervise participant Section 502 loan accounting, including:
 - Totaling invoices and itemizing payments to suppliers and subcontractors
 - Maintaining records of deposits and withdrawals
 - Preparing checks (accompanied with invoices and statements)

Disallowed activities using Section 523 Technical Assistance grant funds are:

- The use of any TA funds to pay staff to provide labor on the houses
- Purchasing any real estate or building materials for participating families
- Paying any debts, expenses or costs which should be the responsibility of the participating families
- Any lobbying activities as prohibited in 2 CFR 200 Subpart F

The T&MA Contractors

In 1979, appropriations language was changed to authorize the use of Section 523 grant funds to contract for technical assistance to self-help grantees. Currently there are four Technical and Management Assistance (T&MA) Contractors.

Rural Development contracts with these groups to assist operating and potential self-help housing grantees across the country. This assistance comes in the form of staff and board training, grant management, development of applications, 502 loan program and processing training, newsletters and conferences, among other services. These services are provided at no cost to the grantee.

The four contractors are:

- Florida Non-Profit Housing - covering Region I, the Southeast, including the states of AL, FL, GA, MS, NC, SC, TN, Puerto Rico and the Virgin Islands.
- Little Dixie Community Action Agency, Inc. – covering Region II, the South Central US, including the states of AR, KS, LA, MO, ND, NE, NM, OK, SD, TX, WY.
- NCALL Research, Inc. – covering Region III, the Northeast and Midwest, including the states of CT, DE, IA, IL, IN, KY, MA, MD, ME, MI, MN, NH, NJ, NY, OH, PA, RI, VA, VT, WI, WV.
- Rural Community Assistance Corporation (RCAC) – covering Region IV, the Western US, including the states of AK, AZ, CA, CO, HI, ID, MT, NV, OR, UT, WA, and the Western Pacific.

Additional Training Materials

Self-Help Training Handbooks

The T&MA Contractors have produced a variety of training materials for the purpose of assisting grantees and training grantee staff. The following is a list of the available self-help handbooks. Please contact your T&MA Contractor for a copy or for more information.

Boards of Directors Handbook

Boards of Directors play a critical role in the success of any non-profit organization. With this in mind, the Board of Directors Handbook was designed for use by board members of any housing agency. It is an informational resource that may be used as a training tool and can provide new insights and a clearer understanding of nonprofit organizations, board meetings and operations, agency planning, administration of agency personnel, teamwork, orientation for new board members, federal accounting requirements, and agency activities.

Program Director Handbook

It is the responsibility of the Program Director or Executive Director to administer a successful self-help housing program. This handbook takes a general look at the process of managing a self-help program

as well as providing specific information on required reports, program criteria, grant and financial management, personnel, and fair housing.

Construction Supervisor Handbook

The Construction Supervisor Handbook discusses the roles and responsibilities of the construction supervisor as it relates to self-help housing. This handbook covers aspects of the construction supervisor's job; from construction specifications, house plans, schedules, bill paying procedures, to group motivation. Insight is provided on how the self-help program operates and what is expected from the construction supervisor.

Group Coordinator Handbook

Group Coordinators are central to the self-help program throughout the self-help participant's involvement from recruitment through construction and move-in to the completed homes. This handbook provides guidance for the group worker in maintaining effective communication and relationships within the group of self-help participants throughout the self-help process.

Financial Management Handbook for Federally Funded Organizations

The financial management handbook aids new and operating self-help grantees with the development of financial management systems and policies that are compatible with the fiscal responsibilities set forth by the funding agency (Rural Development) and the Office of Management and Budget (OMB). While self-help housing programs that have been operating for many years may have sophisticated financial systems and policies, others are lacking written, established financial procedures that assure proper internal controls.

Accounting for Individual Family 502 Loan Accounts Handbook

The self-help housing grantee is responsible for keeping an accurate account of the disbursements of funds from the individual self-help family's Section 502 loan accounts. RD Instruction 1944-I indicates that the technical assistance provided by the grantee to the families should include "providing financial supervision to individual families with Section 502 loans, which will minimize the time and effort required by Rural Development in processing borrower expenditures for materials and contract services. This handbook provides guidelines for self-help grantees to use in designing the procedures necessary for a reasonable standard of control and a system of checks and balances to protect the participants and the grantee.

502 Loan Processing Handbook

While the labor and construction is a group effort, each participant must qualify and obtain a loan individually from Rural Development. In order to qualify, a household must fall within the income

guidelines set by Rural Development, must have demonstrated repayment ability, must have a good credit rating, and should have a low debt load. Because the 502 self-help loan process can be complicated for the individual, the technical assistance staff will pre-screen participants for program eligibility and prepare the application packages for Rural Development. The 502 Loan Processing Handbook will help to train the Group Coordinator or appropriate staff person in packaging these loans.

Preconstruction Meetings Handbook

Each self-help grantee is responsible for organizing participants into self-help groups, which remain together from loan processing through construction. The organization of participants into groups reinforces the "mutual" aspect of the self-help program because participants within a group are expected to work on each other's house until all houses in the group are completed. In addition to organizing participants into groups, self-help grantees are responsible for explaining the self-help concept and methodology to participants, and for educating participants about their responsibilities as self-help participants, 502 loan borrowers, and homeowners. This is achieved through a series of "pre-construction meetings" which are covered in this handbook.

Introduction to this Handbook

In addition to establishing and maintaining an accounting system for the Section 523 grant funds, the Self-Help Housing grantee is responsible for keeping an accurate account of the disbursement of funds from the individual self-help families' Section 502 loan accounts. When a self-help participant is approved for a Rural Development Section 502 loan and the loan is closed, a supervisory bank account is established for the loan. The borrower and Rural Development are co-signatories on checks and have to approve any disbursements made for building materials, contracted services, etc., from the account. The accounting for the disbursements from the Section 502 loans is a significant responsibility that each self-help grantee should take very seriously. Rural Development Instruction 1944-I indicates that technical assistance provided by the grantee to the families should include "providing financial supervision to individual families with Section 502 loans, which will minimize the time and effort required by Rural Development in processing borrower expenditures for materials and contract services." Since the loans are made through Rural Development, every effort should be made to assist the local office. Rural Development requires that a sampling of the loan accounts be audited with the audit of the 523 TA grant funds.

Establishing 502 Record Keeping Procedures

In order to fulfill this accounting responsibility, the grantees must establish a record keeping system with clear procedures for handling the purchase of construction supplies, invoices from subcontractors and vendors, and accounting for expenditures from borrower loan funds. The following information provides guidelines for self-help grantees to use in designing the procedures necessary for a standard of control and a system of checks and balances to protect the participants and the grantee.

The first guideline is to distribute responsibilities and tasks in a *clear* manner so that the staff understands the procedures to follow and who has what responsibility. They must all understand the system, the distribution of responsibilities, and their duties. Each staff member should also understand the responsibilities and terminology of other staff members. For instance, the bookkeeper needs to

become familiar with construction terms and what materials go into building a house. Continued monitoring and enforcement of the tasks are absolutely necessary to the success of the program.

The following are a few suggestions for assignment of responsibilities regarding the disbursement and accounting for the individual borrower's Section 502 loan funds.

<u>TASK</u>	<u>STAFF PERSON</u>
Purchase materials	Construction Manager or Construction Supervisor
Reconcile delivery slips with invoices	Executive Director, Program Manager or Bookkeeper
Process invoices for payment	Bookkeeper
Take checks to be signed by Borrower and Rural Development	Program Manager, Construction Supervisor, or Group Coordinator
Preparation of Statement of Deposits & Withdrawals/Loan Activity Reports	Bookkeeper

A second guideline is to establish financial files for each self-help housing borrower. These files should contain any financial information regarding the borrower and their loan. The file or a series of files should include:

1. The borrower's bank account information.
2. The house cost estimate.
3. The purchase order system for their house.
4. Copies of purchase orders before reconciliation with invoices.
5. Copies of paid invoices and the corresponding check. (Copies of purchase order(s) and delivery slip(s) should be attached.)
6. Borrower's Statement of Deposits & Withdrawals and/or similar reports.
7. Contracts with subcontractors.
8. Any related documentation for expenditures, i.e. insurance forms, warranties, etc.
9. Reconciled bank statements.

Thirdly, the grantee should establish a bookkeeping system to track each individual borrower's loan activity. This can be done manually or by using an automated accounting system such as:

✚ <https://quickbooks.intuit.com/oa/get-quickbooks/>

QuickBooks Desktop Pro 2019-helps organize your business finances all in one place so you can be productive. It is simple to set up and use. Can stay on top of invoices, manage expenses, get reliable reports for tax time and import your data from a spreadsheet. Step by step tutorials show you how to create invoices, record expenses and more. No accounting knowledge is necessary.

✚ <https://www.sage.com/en-us/products/sage-50-cloud/>

(this was once called Peachtree Accounting)

Sage 50 Premium Accounting 2019 provides built-in checks and balances to ensure your financials are accurate and your information is available anytime and anywhere for you and your accountant. The streamlined interface is easy to master, and built-in accounting best practices keep your business finances on track and help you stay compliant with taxes and reporting requirements. One-click reports can be accessed anywhere, anytime, so you can rest assured that your business is in solid financial shape. Sage 50 Premium lets you track everything – not just payroll – in one place. Manage your inventory on hand with the same software you use to handle payroll and customer invoicing. Tools to analyze customers, inventory, and employees are built in, so you can manage everything.

✚ <https://www.xero.com/us/features-and-tools/accounting-software/>

Xero Invoicing helps keep your cash flow healthy by sending online invoices with online payment options. Bank connections allow you to connect to your bank so transactions flow automatically into Xero each business day. Information is secure with extra layers of security in Xero. Projects-Track the time and money you're spending on jobs, and where you can be more profitable. Inventory-Track inventory, manage stock and easily add items into invoices and orders. Bank reconciliation-Keep track of the money and simple bank reconciliation. Payroll with Gusto-Run unlimited payroll across all 50 states and automate filings. Dashboard-See how cash is tracking with a quick glance at your customizable Xero dashboard. Xero expenses-Easily record, claim, and manage expenses and receipts online.

TO TRACK 502 CONSTRUCTION LOAN ACTIVITY IN SUPERVISED BANK ACCOUNTS (SBA's)

Mutual Self-Help grantee organizations can successfully track individual family 502 loan activities using a variety of software programs (examples listed above). These programs include Excel or other programs spreadsheets as well as most automated accounting systems.

Example:

The first expenses involved in the construction of a self-help home are usually the purchase of the lot and the closing costs of the loan, neither of which are paid by check from the supervised bank accounts. These must be entered into the accounting system, however, in order to generate meaningful reports on the status of construction costs. These “non-check” transactions are entered through a journal entry using the closing documents from the title company.

In the example above, the J. Doe family received an \$8,000 down payment assistance grant from HOME to pay for a portion of the cost of their lot. The grant and the first drawdown of 502 construction loan funds in the amount of \$29,000 went directly to the title company to be used to purchase the lot and to pay the closing costs of the loan. The \$8,000 went toward the \$25,000 cost of the lot. The \$29,000 draw was allocated as follows:

1. \$17,000 to pay the balance of the cost of the lot;
2. \$2,000 to pay the buyer’s closing costs; and
3. \$10,000 to the family’s supervised checking account to be used for construction costs.

Internal Controls

While there are many important ingredients in an accounting system, financial excellence demands proper internal controls. Internal controls refers to the built-in system of accounting procedures, checks and balances, division of tasks, and safeguards that guarantees the fiscal integrity of the organization to the participating families and to the funding source, USDA Rural Development. Internal controls will diminish the possibility of willful fraud, abuse, and errors, while offering management, the participating families, and Rural Development the most up-to date and complete loan information.

In designing an accounting system for the borrower’s loans it is important to consider all elements of internal controls:

1. Accounting Procedures

Written procedures should be developed to match the families’ and organization’s needs. All records must be kept current and reports must accurately reflect the families’ bank and loan balances.

2. Checks and Balances

It is important to build certain checks and balances into the borrower accounting system. A simple example is the requirement of having both the borrower and Rural Development sign the checks and review by two entities. The families can play an important part in checks and balances by reviewing and approving payments.

3. Segregation of duties

In designing the accounting system it is important to pay attention to the segregation of duties.

The goal of segregation of duties is to assure that one person is not responsible for all of the steps in the accounting process. A good example of segregation of duties is that both Rural Development and the grantee reconcile the families' checking accounts.

4. Safeguards

An accounting system can have many different types of safeguards. One is the maintenance of adequate documentation for all expenditures. Another example is to assure that all bank accounts are reconciled promptly. The families' checkbooks should be kept in the grantee's office in a locked cabinet or safe.

Good fiscal policies established for internal control will benefit both the participating families and the self-help grantee.

Drawdown Procedures for Rural Development Section 502 Funds

When a borrower's loan is closed, a supervisory bank account is established with Rural Development and the borrowers as co-signatories. In order to have funds available in the account to pay for material orders, an amount must be requested from Rural Development and deposited in the bank account. Rural Development offices may have different procedures but most allow for at least several draws during the construction period. The entire amount of the loan can be drawn down prior to completion of the home. Once construction is completed, the grantee will notify Rural Development to convert the borrower construction loan to a permanent loan. After the conversion, the borrower's first monthly payment will be due within 30 days.

The supervised bank account system allows for monies to be available to purchase the site and materials with no mortgage payments due until after the construction is completed. Many local offices will initiate a drawdown based on a call by the Self-Help Housing Grantee or a drawdown request form. Whenever the drawdowns are to be made from a borrower's loan account, significant planning is required by the grantee to determine the amount to be requested in order to minimize the interest expense incurred by the borrower.

Cost Estimating

A key to the accounting for the individual borrower loan funds is an accurate cost estimate for the self-help house. An accurate cost estimate is the basis for a purchase order system, which will act as a control in ordering the materials and as documentation for the disbursement of funds from the borrower bank account.

Prior to the obligation of each loan, the program director and/or construction supervisor prepares a cost estimate by category of expense. A copy of the appropriate cost estimate is kept in each borrower's file.

The bookkeeper should use the cost estimate in the preparation of purchase orders and in preparing the Statement of Deposit and Withdrawals (USDA Form RD 402-2) or a similar budget comparison report. These reports will provide the families and the grantee with the ongoing information needed to compare budgeted line items with actual expenditures. This should prevent the need for supplemental loans.

In order to avoid cost overruns and costly delays, and to minimize the potential for lawsuits, each borrower should sign a construction contract with each subcontractor. This will protect the interest of both parties.

A clear, concise construction contract is essential and Form RD 1924-6, "Construction Contract" and Form RD 1924-7 "Contract Change Order", if needed, should be used. (See Appendix II for web links.) However, other contract documents may be acceptable, with prior approval from Rural Development. No matter what type of contract document is used, it should be as specific as possible. Form FmHA 1924-6, when properly executed includes the following:

1. Description of the materials and work to be performed.
2. Amount to be paid for all materials and labor to be furnished.

3. Dates when the contractor will start and complete the work.
4. How payments are to be made.
5. General conditions such as proper approval for changes in work, inspection of work, liquidated damages for contractor's inability to complete work, contractor's obligation to discharge liens, and assurance of contractor's warranty.

Additionally, it is beneficial for the grantee to execute a "Construction Agreement" with subcontractors, which clarifies the grantee's role as the representative of the families. It also lists the grantee's requirements with which the contractor must comply and specifies any conditions under which payment may be withheld or another contractor substituted.

Such contracts are essential for the management of the families' loan expenditures. The construction contract will serve as the basis for payment to the subcontractor.

Purchase Order System

In planning for purchasing materials for the self-help houses, it is strongly recommended that Self-Help grantees establish a purchase order system for each given house plan. A master purchase order system can be developed and adapted for each house plan. The purchase order system helps control the ordering of supplies so that unnecessary buying and duplication of materials can be avoided. The system also helps in processing payments to suppliers. See Appendix III for a flowchart of the purchase order system and Appendix IV for a sample borrower purchase order form.

After a particular house design has been built, the purchasing agent or construction supervisor should update the purchase order information based on the actual amount of materials used. Therefore, the cost estimate would only need to be revised based on current prices for each Section 502 loan application submitted using that house plan.

Purchasing House Materials

In actual usage, the construction supervisor retrieves the appropriate purchase order(s) for each borrower's house on a weekly basis according to the stage of construction. The construction supervisor then indicates any changes in quantities to be ordered, or deletions on the purchase order form. These should be minor. The staff person in charge of purchasing materials reviews the purchase order. Changes as indicated by the construction supervisor need to be included as well as updated prices from

the supplier. A note of any changes should be made and at a later date, corrections made to the borrower's purchase order system and cost estimate. The actual purchase orders should include the following items:

1. The name of supplier.
2. The date the materials are ordered.
3. The borrower's name for whom the purchase is being made.
4. The name of the town and subdivision, and lot number where the house is located.
5. The invoice number of the completed order from the supplier.
6. The appropriate signatures which may include the staff person making the order & borrower.
7. The name of the construction supervisor of the group.
8. From the house cost estimate, the cost and the cost category or its number for the item that is being purchased. (This type of coding system will help the bookkeeper post disbursements to the correct category.)
9. The description of the item ordered.
10. The quantity of the item being ordered.
11. The unit price as quoted by the supplier at the time of the order. Indicate if it is a special price or sale item.
12. The total price of the items ordered. (Multiply the quantity by the unit price.)

After the purchase order is completed, place a copy of the purchase order in the borrower's financial file to later reconcile with the delivery slip and invoice. Then, the order is phoned or emailed in or taken to the supplier. The supplier should be required to set up individual accounts and maintain separate billing records for each borrower. The supplier must also be asked to record the purchase order number on each invoice for the materials sold to each borrower. This will make reconciling the invoices, purchase orders, and delivery slips much easier later on. Additionally, families must not be allowed to purchase the materials themselves, because this bypasses the system and can cause duplications or errors.

When the materials are delivered, the construction supervisor should verify the condition and quantity of the items with the delivery slip and sign the slip as well as the participating family. If there are any discrepancies, they should be noted on the delivery slip. The supplier's delivery person should also sign the slip. The slip should be taken to the main office and filed with the borrower's purchase

orders. If all the materials were not delivered, a note of the shortage should be made. The materials should be re-ordered from another supplier or delivered later by the same supplier.

Subcontracted Work

An important part of estimating the cost of a self-help house is determining the costs of subcontracted work such as plumbing and electrical. Virtually all self-help housing programs subcontract certain jobs in the construction of the houses. A copy of the subcontracts should be kept on file. The grantees should obtain bids from as many qualified subcontractors as feasible to assure that the best materials and labor are secured for the best price.

In addition to obtaining bids, grantees should interview prospective subcontractors to determine their quality of performance and workmanship. Take a look at their work, check references and ask their clients whether they were pleased with the work and the price. Furthermore, ask others in the community about the integrity, professional competence, and timeliness of the subcontractors under consideration. You may check with the local building department if your community has one or your local Chamber of Commerce. Some states have a debarment list that you could check. It is recommended to do a credit check in the process of selecting contractors.

Reconciliation of Invoices

When invoices are received from the supplier, they should be reconciled with the purchase order(s) and delivery slip(s). First, separate the invoices by borrower name and match the purchase order and delivery slip with the invoice. If the invoice is for supplies for more than one borrower, make copies of the invoice and file one in each appropriate borrower's file. Each purchase order should have the corresponding invoice number on it. Conversely, the invoice should have the purchase order number indicated on it. Review them to be sure that:

1. Quantity billed agrees with quantity ordered and delivered.
2. Unit prices on the invoice agree with the quoted prices on the purchase order. If you are billed for materials not ordered or delivered, or if prices are incorrect, the supplier must be notified to issue a credit memo to credit the invoice or to issue a corrected invoice. The employee processing the invoices should check:
 1. The calculations (quantity x item prices = total) on the invoices.

2. Indicate on each invoice the appropriate cost category (from cost estimate) as shown on the purchase order.
3. If a borrower is paying several invoices from one supplier, add the invoice totals and staple the adding machine tape to the invoices.

Invoices from subcontractors should be reconciled with the construction contract. Before such bills are paid, the construction supervisor should verify that the work billed for was completed. Additional billings or invoices should be well documented.

The bookkeeper should then prepare the checks for payment of each borrower's invoices, using checks taken out of each borrower's checkbook. ***No invoices for supplies should be paid that do not have both the purchase order and the delivery slip attached.*** These document the purchase as well as the receipt of purchases. Other invoices and requests for payments e.g. utility bills and dumpsters must be well documented to validate the purchase. Then the bookkeeper should mark or stamp "***PAID***" on each invoice and indicate the date paid and the check number. The check should indicate the invoice number or specify what the check is for. The invoices and checks should then be reviewed by another person, such as the director, and initialed to signify that they are ready for presentation to the borrower and Rural Development for signatures.

Statement of Deposits and Withdrawals (USDA Form RD 402-2)

As checks are prepared by the bookkeeper for payment of materials or related items, each borrower's checks must be recorded in their individual Statement of Deposits and Withdrawals (USDA Form RD 402-2) or similar report to the one provided in the appendix in order to keep a running account of the amount of money available in the borrower's supervised bank account. This report is a record of all the disbursements made from the borrower's loan fund and shows what type of materials have been bought as well as a current loan balance and a current checking account balance. The balances remaining in each cost category from the cost estimate are also shown. A sample Statement of Deposits and Withdrawals is shown in Appendix V. Most grantees have elected to maintain a similar reporting system on their computer. USDA RD offices will accept a computer generated check register and a budget comparison report by borrower in lieu of the Statement of Deposits and Withdrawals or facsimile.

The 402-2 report is made up of horizontal lines for the date, payee, check number, loan balance, and bank balance. Multiple columns on the right are used for cost categories according to the cost estimate. (For example, all checks with expenses relating to foundation will be deducted from the category total for foundation.) The Statement of Deposits and Withdrawals is completed as follows:

1. Fill out the top of the form as indicated using cost categories shown on your house cost estimate.
2. Under the column entitled "Loan Balance," enter the total of the loan provided by Rural Development.
3. Under the column entitled "Bank Balance," enter the first deposit of drawdown monies from Rural Development.
4. The columns that follow correspond to the cost categories on the house cost estimate. Enter the name of the category, i.e. Foundation, and the amounts budgeted for each category. Check your entries by adding the categories' entries; the total should equal the loan balance entry.
5. Using the settlement statement prepared by the title company enter all expenses paid at closing including site costs and fees.
6. As checks are prepared, they should be entered into the borrower's Statement of Deposits and Withdrawals. The date, payee, and check number should be entered. The check amount should then be filled in, and then subtracted from the loan balance, the bank account balance, and the correct cost category column(s). In order to record disbursements under the correct cost category column(s), the bookkeeper should refer to the applicable purchase order(s) and invoice(s), which should indicate the cost category to be charged. At times, a check will cover disbursements from a number of categories and the check's amount must be divided accordingly among the categories.
7. Upon completion of the entries, two reviews should be made to insure that the entries are correct:
 - a) The loan balance should equal the sum of the balances for the cost categories.

- b) The bank account balance should be equal to the borrower's checkbook balance.

If either does not match, then an incorrect entry has been made.

8. When the supervised bank account balance becomes low, it is time to request a drawdown from Rural Development. Be sure that the total of the drawdowns requested does not equal the loan amount until the house is finished. A drawdown should be entered in the borrower's Statement of Deposits and Withdrawals as a receipt/increase to the supervised bank account balance.
9. Record any non-502 loan funds deposited into the families' bank account as a receipt/increase to the bank balance.
10. It is suggested that you review each borrower's loan account balance with Rural Development's figures. This can be done when the families' checks are taken to Rural Development for signatures.
11. When a page of the report is completed, the balances are carried forward to the next page.

Signing of Checks and Payments to Suppliers

Part of the grantee's responsibility in providing financial supervision of the participating families' individual mortgage loans is to establish a smooth and efficient routine for obtaining borrower and Rural Development co-signatures and paying suppliers. To fulfill their responsibility, there are certain minimum procedures that should be followed:

1. One staff member should be assigned the responsibility of presenting the checks to the families for signatures. Meetings with families in which checks will be signed should be scheduled on a regular basis. Checks can be signed at the construction sites or the families can be required to come into the office.
2. The original invoices must accompany the checks when they are delivered to families for signatures so that families can review them before signing. The families should indicate their approval for payment on each invoice or on the request for payment voucher (See Appendix XII), and then sign the check for each supplier.

Under no circumstances should either the families or Rural Development sign blank checks.

3. A copy of the invoice and a copy of the check should be placed in the borrower's file and copies should be given to the families as well.
4. The checks, original invoices with original purchase orders attached and check copies are then presented to the Rural Development local office for review and counter-signature. This should be done according to a pre-determined schedule so that Rural Development staff will know when to expect checks for their review and signature, and can schedule their time to accommodate the work.
5. The Rural Development local office may keep the original copies of the invoices and return the signed checks to the grantee for mailing to the proper supplier. If Rural Development does not keep the originals, the grantee should file them.
6. A supplier payment form should accompany the checks when forwarded to suppliers which lists the borrower name, invoice number, amount and check number for each borrower. One letter may include payments from several families and the listing will help the supplier to credit the proper account.
Payments should be scheduled in order to take advantage of discounts.
7. Prior to payment of suppliers or subcontractors, a Release by Claimants should be obtained from the vendor. This provides protection for the grantee and the families from liens against the house or the property. See Appendix VI & VII for USDA Forms RD 1924-9 and -10.

Following these simple procedures will eliminate grantee staff time spent sporadically arranging for families to sign checks several times during the month, and will allow ample time for the families to review invoices. They will minimize the time and effort required by Rural Development to counter-sign checks. The supplier payment form will help the supplier give proper credit to borrower accounts and will clarify problems that could arise concerning unpaid invoices.

Reconciliation of Bank Statements

Reconciliation of the families' bank statements must be done, preferably by the Self-Help TA Grantee. In most situations, the grantee maintains the families' checkbooks and prepares the checks. Therefore, the bank statements should come to the grantee and be reconciled by a self-help staff

person. Each statement's balance should then be checked against the supervised bank account balance on the borrower's Statement of Deposits and Withdrawals and in any automated accounting system. The local office of Rural Development may require that they receive a copy of the bank statements to reconcile themselves or may require that they alone do the reconciliation. If Rural Development feels they must do the reconciliation, then it is prudent for the self-help grantee to receive copies of the bank statements and also reconcile them. Also, by reconciling the borrower bank statements, the grantee is fulfilling its role of technical assistance provider according to the 1944-I, which indicates the grantee should provide "financial supervision to individual families with Section 502 loans." Once the bank statement is reconciled, it should be placed in the borrower's financial file.

SHARES

SHARES stand for the Self-Help Automated Reporting and Evaluation System. It is an internet-ready application designed to manage, track, evaluate, and report on the status of the self-help program. It will also share this information with all parties that provide assistance to this program. SHARES has two distinct components. One is an informational section that includes links to other websites that may be helpful to an organization during the time the grant is active. The second component is an automated database.

The database is an application that allows borrower and grant information to be entered and reports to be generated and printed. Data will need to be entered on a regular basis since Rural Development personnel at all levels and the T&MA Contractor will be reviewing this data for monitoring, reporting, and statistical information purposes. On a monthly basis, the T&MA Contractor will be using the information in the database to print a monthly report. There is a considerable amount of information that will need to be entered into this system by the person designated by the Project Director, usually the Group Coordinator. The information will include detailed borrower and lot information, construction progress and grant status. Although this will take time, the reports that this system is able to generate are extremely beneficial, both to the organization, the T&MA Contractors, Rural Development, and the sustainability of the overall program. There is an entire manual dedicated to training for the use of this system. Request one from your T&MA Contractor if the organization has not yet received one.

Accounting Steps for Section 502 Loans

The following is a summary of the accounting steps involved in recording the borrower Section 502 loan disbursements:

1. Develop a purchase order system for each borrower and establish a format for each borrower's Statement of Deposits and Withdrawals (USDA Form RD 402-2) or similar report.
2. When it is time to order materials, the authorized staff person should sign the appropriate purchase order (P.O.). Materials are then ordered by the appropriate staff member.
3. Materials are delivered to the site, verified, and the delivery slip(s) signed and forwarded to the bookkeeper.
4. Once invoices are received, the purchase orders, delivery slips, and invoices are reconciled by the bookkeeper.
5. Checks are prepared by the bookkeeper, and reviewed with attached documentation by an authorized staff person.
6. The checks are posted by the bookkeeper to the correct borrower's account.
7. The check, accompanied by copies of the purchase order and invoice, is reviewed, approved and signed by the borrower and Rural Development.
8. The original or a copy of the invoice should be given to Rural Development and a copy of the invoice, purchase order, and check (or canceled check when received) should be placed in each borrower's file.
9. The check, accompanied by the invoice number(s) and borrower's name, is submitted by the bookkeeper to the vendor for payment.
10. The families' bank statements are reconciled by the bookkeeper.
11. Periodically, the borrower's loan balance as shown in the Statement of Deposits and Withdrawals or similar report should be checked against

the sum of the balances of the cost categories, as well as with Rural Development's record of the loan balance.

General Recommendations

There are certain general recommendations and best practices that should be followed to insure a smooth and accurate accounting of the borrower Section 502 mortgage loans:

1. Materials should not be transferred from one house to another without documentation and payment. If materials are purchased for one house but used on another, the construction supervisor should prepare a transfer memo. (See Appendix VIII.) The materials and the quantity being transferred are listed on the memo and the respective families sign their consent and receipt of the transfer. Then an invoice in the name of the borrower who originally received the materials is prepared and a check drawn from the borrower's account that is receiving the materials. The transfer memo and invoice document the payment. The transaction should be recorded on both families' Statement of Deposits & Withdrawals or similar reporting system.
2. Families should not be allowed to purchase materials for their houses. This can lead to abuses or duplication of materials.
3. Payments to suppliers should be scheduled in order to take advantage of discounts. This will also help employees schedule their work to meet deadlines and the Rural Development staff will know when to expect checks for their review and signature. Furthermore, the families will sign the checks on a scheduled, not sporadic, basis.
4. Suppliers should be required to set up individual accounts for each borrower in construction and to maintain separate billing records for each borrower. This will prevent confusion as to which materials belong to which house and borrower. Projects that have failed to maintain separate borrower accounts with each supplier have run into serious billing errors. It also helps the supplier to maintain control over his billing.
5. No invoice or bill should be paid unless it has a borrower's name and the purchase order number that it corresponds to.
6. Shared expenses between families should be minimized. If you have an expense shared equally by the families, such as the rental of a portable latrine and/or dumpster, the

expense should be equally divided among the families, and copies of the invoice attached to each borrower's check.

7. In an individual bill-paying system, families' loan funds are never deposited into the T.A. grant bank account nor pooled in a borrower association checking in order to enable forwarding one check to the vendor. If you do, you are comingling funds and could cause a more in-depth and costly audit to be required of your TA grant unless using a custodial accounting system.

Custodial Bill-Paying

As described in this manual, the traditional method of accounting for individual family 502 loan activities starts with the opening of an individual supervised bank account (SBA) for each family. The SBA is described as a checking account established for each participating family that requires both USDA Rural Development (RD) and the family cosign all checks. All loan draw-downs are deposited into this account and all vendors are paid directly from this account. In a group of 10 families, a vendor may receive as many as 10 checks in payment of an invoice that represents supplies or services provided to build multiple homes.

Some organizations that receive 523 TA funds to administer a Mutual Self-Help program use an alternative method of accounting for their participating families' 502 loans – custodial bill-paying. As in the traditional method of bill-paying, SBA's are established for each participating family and checks drawn on these accounts require signatures from both USDA RD and the families. The primary differences are in the number of checks required to be written from these accounts and the number of checks received by the vendor. In the custodial bill-paying system, the 523 TA organizations maintain a separate custodial bank account. Throughout the construction process, some of each family's individual 502 loan funds are deposited into this bank account and held in trust for the families until the funds are disbursed to various vendors.

The custodial bill-paying process works in the following way: On a regular basis (weekly, monthly or semi-monthly), invoices for construction expenses are tabulated for each family. One check from each family is made payable to the 523 grantee in the appropriate amount to cover payment of these invoices. These checks are deposited into the custodial bank account. One check is then made out to each vendor from the custodial bank account in payment of the appropriate families' costs.

As indicated above, the advantage of the custodial method of bill-paying is a major reduction in the number of checks that must be written and co-signed for each family. For a grantee with more than one group building at a time, this can represent a major savings in time for both the 523 grantee that must prepare all of the checks and the USDA RD staff who must sign all of the checks. (See charts, Appendix X.)

There are a number of issues that must be considered when using the custodial method of bill paying:

1. USDA-RD must authorize the use of the custodial bill-paying method. (USDA Rural Development Instruction part 1924, Subpart A, Section .6 (c) describes the requirements that the 523 TA grantee must meet in order for 502 checks to be made payable directly to the TA grantee.) (See Appendix XI)
2. Accounting for each family's construction costs will be more complicated than simply tracking loan draws and checks made out to individual vendors in each SBA. In the custodial method of bill-paying, all of the checks from the SBA's are made payable to the 523 grantee to be deposited into the custodial bank account. Vendor information will have to be tracked in a different way than simply by "Payee" since the vendors are all paid from the 502 funds held in trust in the custodial bank account, not from the SBA's. Some organizations have resolved this issue by tracking the disbursements to vendors as if they were paid out of the SBA's and simply entering an adjusting journal entry into the corporate accounting system used to track the custodial bank account activity. Using this method, budget comparison reports by family can be produced using the accounting software used to track the SBA's.
3. The custodial bank account should be established under the Federal Tax ID number of the 523 TA Grantee and included in the organization's financial reports. However, the deposits made into this account and the disbursements made from this account should not be recorded as income and expenses for the organization since these funds do not belong to the organization. The funds are simply held in trust for the participating Mutual Self-Help families. These funds pass through the grant of the organization and should be reflected as balance sheet activity using the bank account as an asset and a liability account to offset the asset. In addition, the 523 grantee must set up the

organization's corporate accounting system to track the funds in the custodial account by participating family.

4. The 523 grantee should establish internal controls for the 502 construction funds that are deposited into the custodial bank account. One of these controls should include the selection of appropriate check signers for disbursements made from this bank account. Staff responsible for preparing disbursements from the SBA's should not be signers on the custodial bank account.
5. In the traditional method of bill-paying the SBA's are established in the participating families' names and Social Security numbers. Funds deposited into the SBA's do not exceed \$250,000. As a result, they are fully protected by Federal Deposit Insurance Commission (FDIC). In the custodial bill paying method, the balance in the custodial bank account can exceed \$250,000 at times. The 523 grantee should request a letter of collateralization from the bank to protect any funds in excess of \$250,000 in this account. (See USDA Rural Development Instruction Part 1902 subpart A Section .7 – "Pledging collateral for deposit of funds in supervised bank account").
6. The custodial account should be set up as non-interest bearing. The benefit of interest earned on these funds is outweighed by the difficulty of determining which family's funds earned the interest. Interest earned is not income to the 523 grantee since the funds in the account belong to the participating families.

Closing Summary

All Self-Help Housing grantees must establish financial management systems and policies in order to accurately account for the participating families' 502 loan funds. The systems and policies established must conform to generally acceptable accounting principles (GAAP) and meet Rural Development's requirements as outlined in 1944.411(f). (See Attachment IX.)

The procedures, guides, and checklists offered in this accounting guide are recommended as standards of control necessary to protect the self-help grantee and the participating families. While conditions will vary among grantees, each can adapt the principles outlined in this guide to establish, supplement, or revise their accounting system to insure that all aspects of their self-help housing operation are based upon sound fiscal practices.

Ultimately, the self-help grantee, participating families, and Rural Development will benefit from established financial controls which prevent potential fraud and abuse, and provide a framework for regular analysis and accurate tracking of monies spent.

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Appendix IX.	USDA RD Instruction 1944-I Section 1944.411 (Conditions for Approving a Grant)
Appendix X.	Traditional Bill-paying vs. Custodial Bill-paying chart
Appendix XI.	USDA RD Instruction 1924-A Section 1924.6(c) (Mutual self-help Method)
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Sample Chart of Accounts

<u>Account</u>	<u>Type</u>	<u>Balance Total</u>	<u>Description</u>
DOE, J.	Bank	-1,000.00	Lot 3 - Main St.
O'NEAL, G.	Bank	-2,000.00	Lot 6 - Main St.
SMITH, T.	Bank	7,000.00	Lot 1 - Main St.
Accounts Payable	Accounts Payable	3,000.00	
Opening Bal Equity	Equity	0.00	
Retained Earnings	Equity		Retained Earnings
502 Construction Loan	Income		
Bank of US DPA	Income		Down Payment Assistance Grant
HOME DPA	Income		
01 - Lot Purchase	Expense		
02 - Fees & Permits	Expense		
03 - Excavation	Expense		
04 - Concrete	Expense		
05 - Lumber & Fasteners	Expense		
06 - Trusses	Expense		
07 - Siding	Expense		
08 - Roofing	Expense		
09 - Plumbing	Expense		
10 - Electric	Expense		
11 - HVAC	Expense		
12 - Insulation	Expense		
13 - Drywall	Expense		
14 - Exterior Doors	Expense		
15 - Garage Doors	Expense		
16 - Interior Doors & Trim	Expense		
17 - Windows	Expense		
18 - Paint	Expense		
19 - Floor Cover	Expense		
20 - Appliances	Expense		
21 - Counter Tops	Expense		
22 - Cabinets	Expense		
23 - Irrigation	Expense		
24 - Ground Cover/Plants	Expense		
25 - Gutters	Expense		
26 - Allowances	Expense		
27 - Overhead	Expense		
28 - Contingency	Expense		
29 - Closing Fees	Expense		
30 - Other Detail	Expense		

Appendix I

Federal Instructions and Forms

Website Addresses for USDA/Rural Development Instructions and Forms

To obtain a copy of USDA/Rural Development Instruction 1944-I, go to the following website:

- USDA RD Instruction 1944-I
<https://www.rd.usda.gov/files/1944i.pdf>

To obtain a copy of USDA/Rural Development Instruction 1924-A 1924.6(c) Mutual self-help method:

- USDA RD Instruction 1924-A 1924.6 (c) Mutual self-help method
<https://www.rd.usda.gov/files/1924a.pdf>

To obtain a copy of USDA/Rural Development Form RD 402-2 (Statement and Withdrawals)

- USDA RD Form 402-2 (Statement and Withdrawals)
<http://www.usa-federal-forms.com/usa-fedforms-usda-rd/usda-rd-402-2-nonfillable.pdf>

To obtain a copy of federal forms RD 1924-6 and RD 1924-7, go to the following websites:

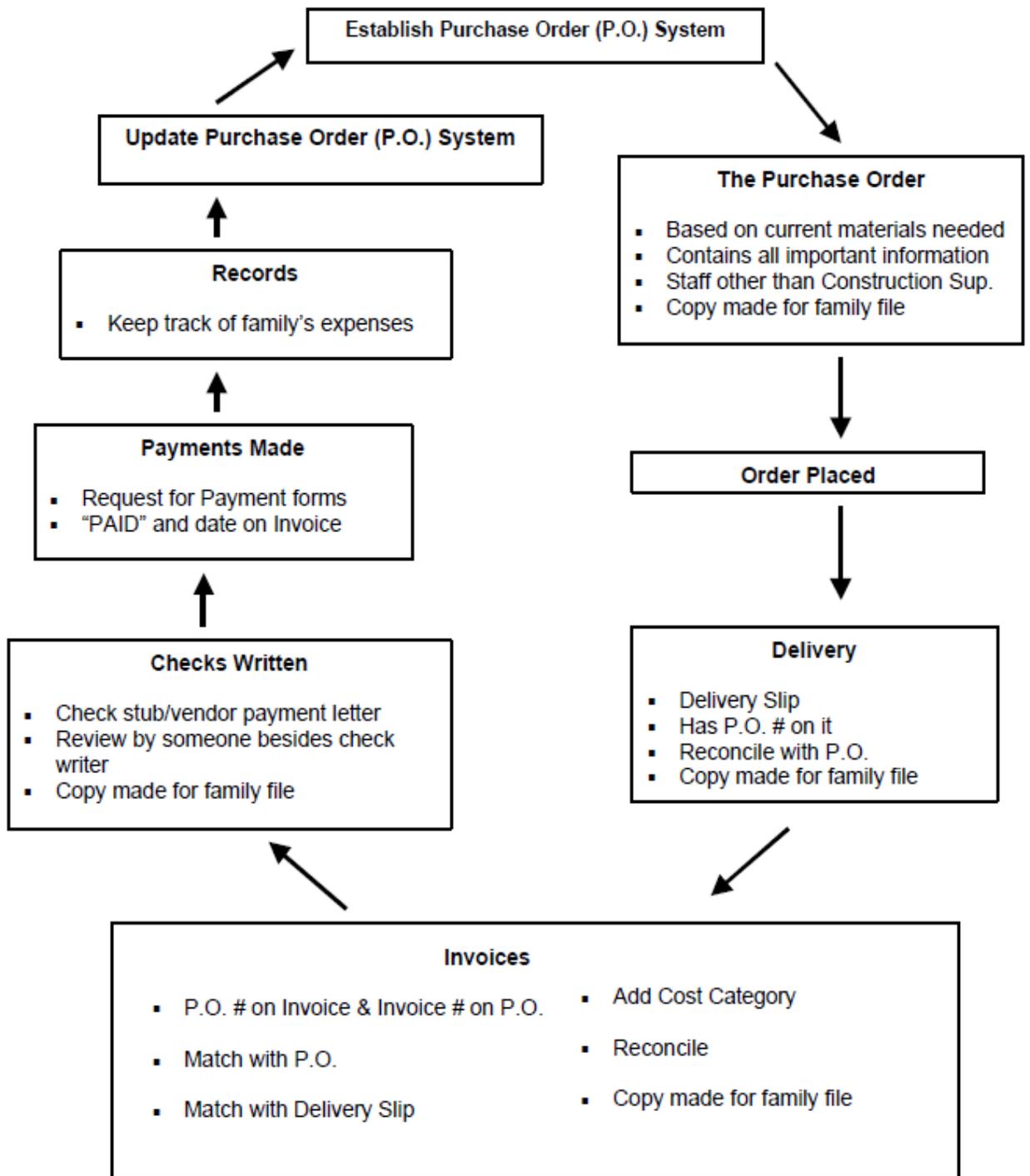
- Form RD 1924-6 “Construction Contract”:
<https://forms.sc.egov.usda.gov//efcommon/eFileServices/eForms/RD1924-6.PDF>
- Form RD 1924-7 “Contract Change Order:
<https://forms.sc.egov.usda.gov//efcommon/eFileServices/eForms/RD1924-7.PDF>

To obtain a copy of federal form RD 1924-9, go to the following website:

- Form RD 1924-9 “Certificate of Contractor’s Release”:
<https://forms.sc.egov.usda.gov//efcommon/eFileServices/eForms/RD1924-9.PDF>

To obtain a copy of federal form RD1924-10, go to the following website:

- Form RD1924-10 “Release by Claimants”:
<https://forms.sc.egov.usda.gov//efcommon/eFileServices/eForms/RD1924-10.PDF>



Sample Borrower Purchase Order Form

FAMILY PURCHASE ORDER FORM

FAMILY: _____ PURCHASER: _____
 VENDOR/SUPPLIER: _____ DATE OF ORDER: _____
 CONST. SUPERVISOR: _____ LOCATION: _____
 INVOICE NUMBER: _____

CATEGORY	QUANTITY	ITEM AND DESCRIPTION	UNIT COST	TOTAL PRICE
TOTAL				

Accounting for Individual Borrower 502 Loan Accounts Handbook

USDA
Form RD 1924-9
(Rev. 1-98)

Form Approved
OMB No. 0575-0042

Date _____

Dear Sir:

I hereby acknowledge the receipt of _____ dollars
(\$ _____) in full payment of my contract dated _____ for improvement work which I did for you and
which is described in my contract.

I certify that I have paid in full for all materials purchased and all labor employed in the performance of this contract, and that there
are no claims against me under this contract on account of injuries sustained by workers employed by me or by subcontractors
thereunder. I hereby release you from any claims arising by virtue of this contract.

I am attaching Form RD 1924-10, "Release by Claimants," signed by all persons from whom I have purchased materials and by all
subcontractors and all persons employed in connection with my contract with the above-named borrower.

WARNING

The statements and representations made above are made in connection with construction financed in whole or
in part by the United States Department of Agriculture (USDA). The statements and representations will be
used to determine the release of USDA provided funds. The making of any false statement or misrepresentation
herein may be a crime punishable under Title 18 U.S.C. § 1001 which provides in part: "Whoever, in any matter
within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or
covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or
representations, or makes or uses any false writing or statement or entry, shall be fined under [title 18 of the United
States code] or imprisoned not more than five years, or both.

Sincerely,

Contractor

Position 6

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0042. The time required to complete this information collection is estimated to average 15 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

RD 1924-9 (Rev. 1-98)

PROPERTY TRANSFER/DISPOSAL FORM

GROUP NAME: _____

DATE: _____

PROPERTY #: _____

PROPERTY TRANSFERRED FROM: _____

PROPERTY TRANSFERRED TO: _____

DESCRIPTION: _____

CONDITION: _____

REASON FOR TRANSFER: _____

Do not dispose of any property without clearing it with the property department and your program director.

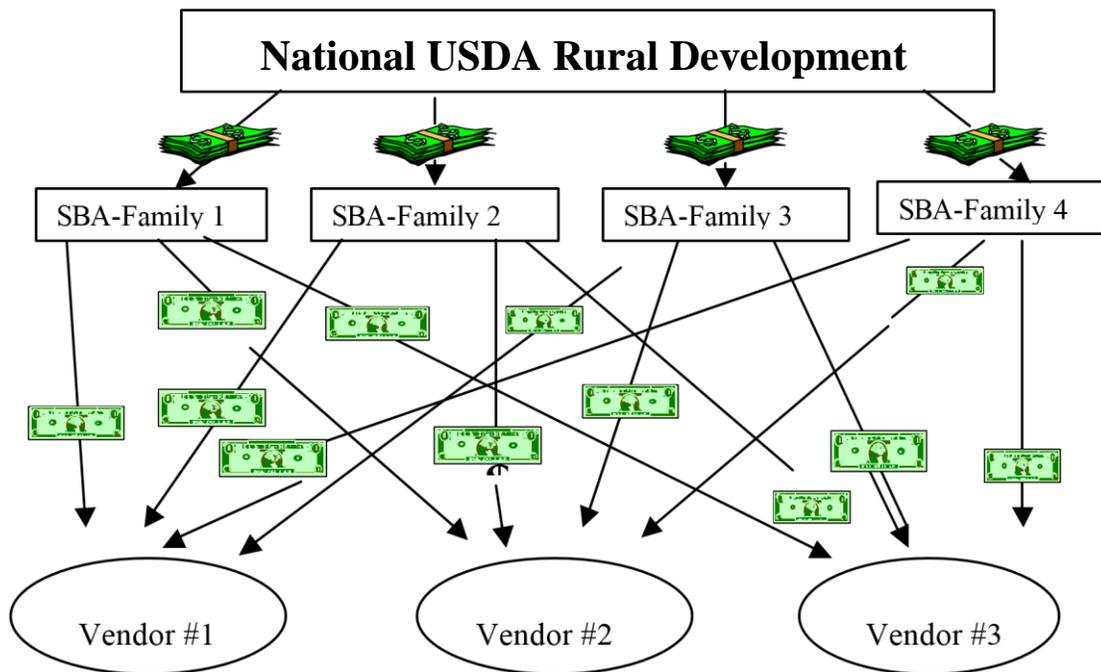
RD Instruction 1944-I

1944.411 Conditions for approving a grant.

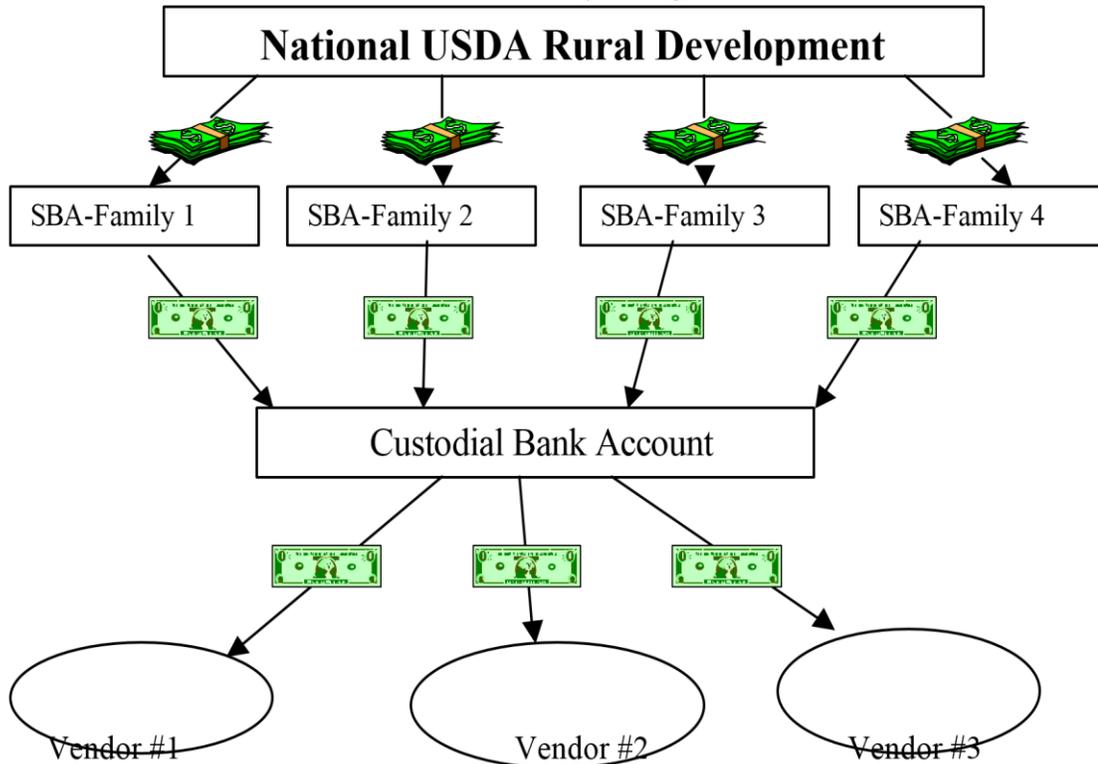
A grant may be approved for an eligible applicant when the conditions in the letter of conditions are met and the following conditions are present:

- (a) The applicant has or can hire, or contract directly or indirectly with, qualified people to carry out its responsibilities in administering the grant.
- (b) The applicant has met all of the conditions listed in §1944.410(e) of this subpart.
- (c) The grantee furnishes a signed statement that it complies with the requirements of the Departmental Regulations found in 7 CFR Part 3015 and Part 3016.
- (d) A resolution has been adopted by the board of directors which authorizes the appropriate officer to execute Exhibit A of this subpart and Form RD 400-4,
"Assurance Agreement." (Revised 04-24-91, PN 163.)
- (e) The grantee has fidelity bonding as covered in 7 CFR Part 3015 if a nonprofit organization or, if a State or local government, to the extent required in 7 CFR Part 3016.
- (f) **The grantee has agreed by completing SF-424B, "Assurances-Non Construction Programs," that it will establish a recordkeeping system that is certifiable by a certified public accountant that it adequately meets the Agreement. (Revised 04-24-91, PN 163.)**
- (g) The grantee has established an interest bearing checking account on which at least two bonded officials will sign all checks issued and understands that interest earned in excess of \$250.00 annually must be submitted to FmHA quarterly. (The use of minority depository institutions is encouraged.)
- (h) The grantee has developed an agreement to be executed by the grantee and the self-help participants which clearly sets forth what is expected of each and has incorporated Exhibit B-2 of this subpart which clearly shows what work is expected of the participating family.

Traditional Bill Paying Method



Custodial Bill Paying Method



Appendix X

RD Instruction 1924-A

(c) Mutual self-help method. The mutual self-help method is performance of work by a group of families by mutual labor under the direction of a construction supervisor, as described in subpart A of part 1944 of this chapter. The ways of doing the work, buying materials, and contracting for special services are like those used for the borrower method. Materials can be bought jointly by the group of families, but payments will be made individually by each family. In the case of RH loans to families being assisted by Self-Help Technical Assistance (TA) grants in accordance with subpart I of part 1944 of this chapter, the County Supervisor may countersign checks for materials and necessary contract work made payable directly to the TA grantee, provided the District Director determines that: (Revised 10-27-95, SPECIAL PN.)

- (1) The grantee acts in the same capacity as a construction manager in the group Purchase of material and services.
- (2) The grantee has an adequate bookkeeping system approved by the District Director to assure that funds in each RH account are properly distributed and maintained.
- (3) The grantee receives no compensation in the way of profit or overhead for this service and all discounts and rebates received in connection with the purchase of materials or services are passed on to the participating families.
- (4) The grantee has a record-keeping system which shows that the costs of the materials and services were prorated to each borrower's account in relation to the actual material and service used by each borrower.

Sample Request for Payment

CHECK NUMBER: _____ CHECK AMOUNT: _____

VENDOR: _____ DATE: _____

PAYMENT OF THE FOLLOWING DESCRIBED INVOICE OR CLAIMS IS HEREBY REQUESTED:

P.O. #	ACCOUNT #.	DESCRIPTION	DEBIT	CREDIT

PAYMENT WILL NOT BE MADE UNLESS PROPER SUPPORTING DOCUMENTS ARE ATTACHED

CERTIFICATION: I hereby certify that all the information furnished on this form is true and correct to the best of my knowledge and belief and is furnished in good faith.

REQUESTED BY: _____

APPROVED BY: _____

Appendix XIII

FAMILY: John Jane Doe		Location: 3 bedrooms / 2 baths								
GROUP: Martin G PLAN:										
		CATEGORY 1 Plan	CATEGORY 2 Land Plan							
DATE	VENDOR	INVOICE OR CHECK #	P.O.#	DEPOSIT OR CHECK AMOUNT	BANK BALANCE	LOAN BALANCE	AVAILABLE LOAN	CATEGORY NUMBER	ENTRY BALANCE	ENTRY BALANCE
BUDGET AMOUNTS FOR EACH CATEGORY										
06/11/98	First Draw				16,040.00	46,711.61	46,711.61	ALL	1,595.00	600.00
	Closing Statement	attorney			16,040.00	46,711.61	46,711.61		1,595.00	600.00
06/18/98	D & Dirt Movers	1	3039	(497.55)	15,542.45	46,214.06	46,214.06	2	1,595.00	600.00
06/18/98	MS, Non-Profit	2	3045	(915.00)	14,627.45	45,299.06	45,299.06	1	915.00	102.45
06/25/98	Patrick Howell	3	3041	(933.33)	13,694.12	44,365.73	44,365.73	3	680.00	102.45
06/26/98	Taylor Ready Mix	4	3089	(3,183.25)	10,510.87	41,182.48	41,182.48	4	680.00	102.45
06/26/98	Joseph Lack	5	3040	(4,319.20)	6,191.67	36,863.28	36,863.28	4	680.00	102.45
07/09/98	Charles Holmes	6	3042	(1,364.25)	4,827.42	35,499.03	35,499.03	5	680.00	102.45
07/07/98	Charles Holmes	7	3090	(1,364.25)	3,463.17	34,134.78	34,134.78	5	680.00	102.45
07/30/98	Patrick Howell	8	3087	(933.33)	2,529.84	33,201.45	33,201.45	3	680.00	102.45
07/30/98	McCraw Pest Control	9	3091	(280.14)	2,249.70	32,921.31	32,921.31	4	680.00	102.45
07/31/98	Charles Holmes	10	3983	(1,364.25)	885.45	31,557.06	31,557.06	5	680.00	102.45
08/17/98	Deposit			15,000.00	15,885.45	31,557.06	31,557.06		680.00	102.45
TOTALS									915.00	497.55